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SUBJECT: GOC SKETCHES OUT RETURNEE HOUSING PROGRAM

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Sensitive but unclassified, please handle accordingly.

¶1. (U) SUMMARY AND COMMENT. On 25 August the GOC approved a housing program for ethnic Serbs that provides for the construction of apartments for former tenancy rights holders (socialized housing) in non-war affected areas (outside the Areas of Special State Concern, or ASSC). The \$500 million plan foresees the construction of 3600 apartments in major cities around Croatia by the end of 2011 and purchase of another 400. Residents will not be able to sell, sub-let, or inherit the rental apartments, which will be returned to the State upon the tenant's death.

¶2. (SBU) The issue of tenancy rights has been a thorny one for the GOC for years and is now the largest unresolved housing category for ethnic Serb returnees, most of whom had fled their state-owned apartments during the war and not returned in time to participate in state-sponsored purchasing programs. Government adoption of the program has raised even more dust in the past few days and created confusion about its elements, which are left vague. The announcement drew the ire both of conservative war veterans groups, who protested that the GOC was giving apartments to those who "fought against Croatia," and of ethnic Serb groups, who complained about the no-purchase, no-inheritance model. Working damage control, PM Sanader stated that the program is humanitarian. Post and international organizations do not yet have formal confirmation that the purchase option, to which the GOC committed in earlier discussions, is off the table. Despite the poor program rollout and subsequent public reactions, the program is a slow step forward. Targets are modest, as most housing would not be available for three to five more years. And as always, implementation will be the challenge. Nevertheless, with this decision, the GOC has re-committed itself to providing a humanitarian solution for returnees. END SUMMARY AND COMMENT.

PROGRAM SKETCHED OUT FOR LEASED APARTMENTS

¶3. (SBU) The GOC Conclusion addresses the 4,425 applications for apartments outside the ASSC. GOC Spokesman Ratko Macek told the press that the plan refers to applicants who applied only for leasing (as opposed to purchase) of state-owned apartments.

(Note: As there are only around 2,200 of those "lease-only" applicants, it is not clear who would occupy the other 2,225 apartments.) Apartments are planned in Karlovac, Osijek, Petrinja, Pula, Rijeka, Sisak, Split, Zadar and Zagreb. (Another 4,600 refugees have applied for a similar program in the ASSC.) Under this program, former tenants of socialized housing will pay lower-than market rent but will not be entitled to sell, rent or inherit those apartments. They will be returned to the GOC upon the death of the tenant. Costs of construction will be paid off over 25 years and are estimated at \$20 million annually. This year, the GOC has set aside about \$6 million, which was unused in past years for the program and rolled over to 2006. The apartments will be built through a public-private partnership model that has yet to be detailed. Targets for apartment allocation are modest; most program implementation would take place four or five years from now. For example, by 2007 the GOC plans to build 180 apartments, and 930 in 2008. In total, the GOC plans to purchase 400 apartments by late 2007 and construct 3,600.

LEASE AND PURCHASE?

14. (SBU) Following a 2003 Government decision, the housing program outside the ASSC has two components: purchase and lease. In their public comments, PM Sanader and Minister for Construction and Environment Martina Matulovic-Dropulic referred only to the lease option, emphasizing that former tenancy-rights-holding refugees who will lease the apartments will not be able to later purchase them. (Note: In 1996, Croatian citizens were granted this opportunity as the country privatized state-owned apartments, but the option was not available to any one not physically present in Croatia.) Left unmentioned was the purchase option,

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presumably as it was more likely to raise the ire of conservative domestic political groups. When rolling out the program, Minister Dropulic, a conservative HDZ member, assured the public that the apartments would be returned "to Croats" for social welfare housing upon the death of the tenants. (Comment: The subtext is that elderly returnees will not live long.)

15. (SBU) The European Community announced that it was "surprised" that residents would not be allowed to eventually purchase the apartments, but refrained from further comments. The OSCE Mission told us they were pleased that the GOC made some specific commitments for apartment purchase and construction, as the international community has been pressing for years for program implementation. In addition, the OSCE's Office for Refugees and Reintegration expressed hope for assurances that renters would eventually be able to purchase the apartments, and that they could be inherited by members of the original household (in 1991) who do not own other property currently. OSCE will look for clarification that the separate, purchase option remains for the 2,200 other applicants as was previously agreed to. In regular meetings with Minister Bozidar Kalmeta, responsible for refugee issues, Post and the international community have pressed for specifics about programs and clear targets for their implementation. Post will continue to request detailed information about the GOC housing program and to advocate for prompt implementation.

REACTIONS ALL AROUND

16. (SBU) Several groups reacted strongly to the brief presentation by Minister Dropulic. Veterans groups harshly criticized the GOC program. Housing should be provided to veterans, "not for those who fled," stated

one coordinating body of war veterans associations. The Croatian Generals' Assembly has asked the GOC for a list of ethnic Serb housing applicants to ensure that no war-time aggressors are given State housing. The Serb Democratic Forum, Croatia's largest NGO, vehemently opposes the decision, as it does not allow residents to purchase the apartments. In addition, its president, Veljko Djakula said that the deadline is too flimsy. It is unacceptable if the housing is not transferable to family members, he told the press, referring to the general belief that many elderly applicants will die in the coming years. Ethnic Serb MP Milorad Pupovac and GOC coalition partner criticized the project both for policy and process reasons, complaining that his party was not consulted, and objecting to the no-purchase aspect; he did publicly indicate however that he has no plans to withdraw from the governing coalition. In addition, local municipal authorities, who learned of the program through the press, expressed public frustration with the GOC's lack of consultation. The mayor of Rijeka, for example, announced that there is no State-owned land available for such construction.

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